

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 ABF-01 PA-01 PRS-01 /090 W

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R 011500Z MAR 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 6036

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: GOI ANNOUNCES NEW CREDIT MEASURES AND THE COST OF
MONEY INCREASES

REF: (A) ROME 2997 (B) ROME 1945 (C) ROME 1678 (D) 75 ROME 13254

1. THE GOVERNMENT HAS ANNOUNCED DURING THE PAST WEEK SEVERAL
MEASURES DESIGNED TO REDUCE BANK LIQUIDITY. AT THE SAME TIME,
THE ITALIAN BANKING ASSOCIATION CARTEL HAS RAISED PRIME RATE
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AND INTEREST ON DEPOSITS.

2. DISCOUNT AND ADVANCE RATES INCREASED. ON FEBURARY 24, MINTREAS COLOMBO ANNOUNCED A FURTHER INCREASE FROM 7 TO 8 PERCENT EFFECTIVE FEBRUARY 26 IN THE BANK OF ITALY'S DISCOUNT AND ADVANCE RATES. THESE RATES WERE ONLY RECENTLY RAISED FROM 6 PERCENT ON FEBRUARY 2, 1976 (REFTEL C).

3. SECOND TRANCHE OF NEW RESERVE REQUIREMENT ADVANCED. DATE OF COMPLIANCE FOR THE SECOND AND FINAL QUOTA OF THE INCREASED MANDATORY RESERVE REQUIREMENT (REFTEL B) FOR MEMBERS OF BANKING SYSTEM HAS BEEN MOVED FORWARD TO MARCH 15, 1976 VICE APRIL 15 (NOTE THAT THIS ALSO CORRECTS DATES GIVEN REFTEL A). IT IS EXPECTED THAT THE SECOND TRANCHE WILL REDUCE LIQUIDITY IN THE BANKING SYSTEM BY 350 BILLION LIRE. FIRST TRANCHE COMPLIANCE DATE WAS FEBRUARY 16, 1976.

4. PRIME RATE AND INTEREST ON DEPOSITS INCREASED.. THE ITALIAN BANKING ASSOCIATION CARTEL MET FEBRUARY 26, 1976 AND ANNOUNCED WIDELY EXPECTED INCREASE IN PRIME RATE EFFECTIVE MARCH 1 FROM 12 TO 14 PERCENT AND INCREASE IN INTEREST ON DEPOSITS AS FOLLOWS (PREVIOUS RATE IN PARENTHESIS):

AMT OF DEPOSIT (IN MILLIONS OF LIRE)	DEMAND DEPOSITS	SVGS ACCTS
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UP 20	6.24	7.24
20 TO 50	6.25 (5.25)	7.25 (6.25)
50 TO 100	6.75 (5.75)	7.75 (6.75)
100 TO 250	7.0 (6.0)	8.0 (7.0)
ABOVE 250	7.25 (6.5)	8.25 (7.5)

THE LAST RATE CHANGES WERE DECREASES IN THE RATES WHICH BECAME EFFECTIVE OCTOBER 1, 1975 (REFTEL D).

5. COMMENT. AFTER EXTREMELY HEAVY PRESSURE ON LIRA FIRST PART OF LAST WEEK, GOI HAS ACCELERATED EFFORTS TO REDUCE LIQUIDITY AND THUS RELIEVE SOME OF INTERNAL PRESSURE, WHILE AT THE SAME TIME EFFECTING MEASURES ON EXCHANGE CONTROLS (SEPTEL). WHILE THESE CREDIT TIGHTENING MEASURES, TAKEN IN FACE OF STILL LOW LEVEL OF ECONOMIC ACTIVITY, ARE UNFORTUNATE, THEY ARE NEVERTHELESS NECESSARY TO ATTACK SERIOUS CAPITAL FLIGHT PROBLEM. EVEN THOUGH COST OF MONEY WAS CONSIDERABLY REDUCED IN LAST QUARTER OF 1975 IN A CALCULATED RISK TO HELP LIMITED OFFICIAL USE

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SPUR ECONOMY, INVESTMENT SITUATION HAD UNFORTUNATELY REMAINED MUSHY. THUS, HIGH DEGREE OF LIQUIDITY EXISTED IN BANKING SYSTEM AT TIME OF LAST GOVERNMENT CRISIS. IT IS HOPED THAT MEASURES TAKEN WILL REMOVE SPECULATIVE EXCESS LIQUIDITY FROM BANKING SYSTEM WITHOUT IMPACTING UNDULY ON FAINT BEGINNINGS OF ECONOMIC RECOVERY. BEAUDRY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, FOREIGN EXCHANGE RATES, CREDIT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 01 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME03317
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760078-0226
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t197603107/aaaadqrv.tel
Line Count: 113
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ROME 2997, 76 ROME 1945, 76 ROME 1678, 76 ROME 13254
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAR 2004 by MartinML>; APPROVED <07 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI ANNOUNCES NEW CREDIT MEASURES AND THE COST OF MONEY INCREASES
TAGS: EFIN, IT, (COLOMBO, EMILIO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006